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SUBJECT: AUSTRIAN ELECTIONS: SPO SEIZES AGENDA WITH NEW SPENDING,  
TAX RELIEF

REF: a) VIENNA 1297, b) VIENNA 1284, c) VIENNA 1287

11. Summary: In the run-up to the September 28 national elections, the SPO has seized the agenda by moving forward with a package of inflation relief measures. The SPO managed to form a series of ad hoc alliances in order to schedule the measures for a vote. The effort has sparked speculation about post-election coalition possibilities, though the SPO is likely aiming to gain momentum in the campaign rather than lay the groundwork for a post-election government. End Summary.

#### Faymann Anti-Inflation Package

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12. SPO Chairman Werner Faymann set the agenda for the final weeks of the campaign with the announcement of a five-point program to mitigate the impact of inflation. At a September 12 special meeting of parliament, the SPO managed to win approval to have the measures included on the agenda for September 24, the last parliamentary session before election day. The SPO found various partners for its motions. The OVP, the SPO's junior governing coalition partner, voted with the SPO on motions increasing home nursing care assistance for the elderly, continuing early retirement for laborers with long service in the workforce, and expanding child support benefits. The opposition FPÖ and Greens joined the SPO on a motion to abolish university student fees. The FPÖ also voted with the SPO on a motion to cut in half the value added tax (VAT) on basic food and medicine, while the OVP and Greens rejected the proposal as ineffective and costly.

13. The OVP and Green MPs had enough votes to block the VAT proposal, but a number of their MPs were absent during the vote, a blunder for which OVP Chairman and Vice Chancellor Wilhelm Molterer immediately called his MPs to task. For passage at the September 24 parliamentary meeting, the SPO and FPÖ will need the votes of the BZÖ, headed by Carinthian Governor Joerg Haider, who remains uncommitted.

#### Coalition Speculation

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13. The SPO's use of assorted "coalitions of the willing" to pass the measures has nurtured speculation about possible governing coalition scenarios after the elections. Observers have focused particularly on the possibility of an SPO-FPÖ coalition government, or an SPO minority government supported by the FPÖ. Faymann has recently reiterated that he would not form a coalition with the FPÖ under its rightwing/populist chairman Heinz-Christian Strache. He has not ruled out the possibility that the SPO could form a minority government, though he has said that is not his preference.

#### SPO, OVP Play Politics with Budget

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14. The debate over "election candy" reflects basic differences between the major parties, which are now neck-and-neck in the polls. The SPO under Faymann presents itself as caring for the needy and willing to widen the deficit to address their concerns. The OVP

supports some new expenditures but advocates for budget austerity and accuses the SPO and other parties of trying to lure voters with irresponsible handouts. Lost are the voices of economists who fear an end to reform and outperformance (ref C). In retrospect, classifying some revenues as "extraordinary" starting in 2006 -- an attempt to set aside funds for structural reform -- has backfired since voters see the state as awash in money.

Comment: SPO Momentum

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15. While the SPO and OVP are close in the polls, the SPO has seized the agenda and appears to have gained some momentum at this stage. A recent poll placed the SPO in first with 29 percent, followed by the OVP with 26 percent. The SPO campaign appears disciplined and well organized. It is concentrated on introducing the media-savvy Faymann as the party's "new face." Faymann maintains close relations with a number of media outlets, most prominently the mass-circulation Kronenzeitung. The OVP appears to be having more difficulty in its efforts to promote Molterer as a leader who is trustworthy, honest, and reliable. GIRARD-DICARLO